

The Role of the Board in a Crisis and Dilemmas in Corporate Governance

Managing crises from the board's perspective, and how the chair and members can play a role in mitigating negative outcomes

As part of the Directors Development Program, Vineet Hemrajani, Egon Zehnder hosted a fireside chat on the subject of “The Role of the Board in a Crisis and Dilemmas in Corporate Governance” with Sunil Mehta, a veteran of banking and financial services in India with unmatched experience straddling the public and private sectors. Mehta is currently the Chair and Managing Director of SPM Capital Advisers Limited, and has previously held leadership roles with YES Bank, Punjab National Bank, the State Bank of India, and AIG. The in-depth discussion focused on how board members and leadership can strategically use their roles in corporate crises, and the challenges that are innate within governance structures of corporations of all sizes.

Managing crises on a board

Mehta began with no hesitation in sharing what many seasoned directors know very well: crises are all consuming, and most of the time, they are impossible to see coming. “There is never a point in time that you can anticipate that there is a crisis that is going to come and hit you,” he said. “So, you’ve got to be fully prepared for

[one] as a board or as an institution for the unknown-unknown risks ... I think that's really what my key learning has been during all the situations that I have faced."

He offered an example that he encountered early on in his leadership career at Citibank, in the early 1990s when there was heavy focus on securities issues and scamming in the banks. In his role as the Joint Parliamentary Committee Manager, he was asked to analyze how the crisis could be solved to the bank's advantage. It was a particularly volatile situation, given that he and his colleagues had limited understanding of managing a crisis and were in a particularly volatile position, under scrutiny from the government and the public alike. "[It] was a great learning that you have to be fully prepared. And you cannot be sitting as focusing entirely on business, you've got to focus on understanding the regulatory environment, you've got to be sensitive to where the questions will come from, how the financial system is seen as such an integral part of the country's economic stability," he said. The experience, in which he prepared for depositions with the committee and fielded hostile questions from the opposition on Citibank's behalf, led him to give valuable advice to the audience that, "[when] engaging with the external environment, any financial institution in the country has to be fully prepared, to be open to any kind of deposition or any kind of investigation or opening up their books and making sure that there is a high level of transparency that one has maintained inside the institution. And that there is no act that you have committed which is seen as being 'grey' from a regulatory standpoint, because banks are required to comply with both the letter and spirit of the law"

Mehta then moved to another example years later, during the financial crisis of 2007-2008 when he was the Country Head of AIG India, responsible for the fate of 13,500 employees and 10 different verticals, all of which faced intense scrutiny after the fall of Lehman Brothers. The questions at the time, he said, were how AIG India was going to protect their employees and those in the market, while also maintaining regulatory compliance so that the local regulator maintains confidence and support. Mehta made it through that crisis with local support and with a \$182 billion bailout from the U.S. but credited it in part to the goodwill built up with regulators, something that was key in that moment of crisis. "This aspect of the local regulator being primed and making sure that the local regulator supports you was amazing," he noted.

What is the role of the board chair in a crisis?

In a crisis, the board's role is just as critical as that of management, if not more so, said Mehta. "In all [of my experience], my major learning on this is that the role of the board is absolutely paramount. I mean, there's no second way about it," he told the audience. Elaborating, he said that each member of the board has a different responsibility in a crisis.

For the chair, the core responsibility must be to revert back to its foremost responsibility: being a fiduciary body, and the responsibility that it carries with all stakeholders. "You have to really roll up your sleeves and not just go based on what was given as the principal responsibilities," said Mehta. "You have to give support to your management team, which you can imagine is under immense pressure from all stakeholders that they are dealing with. You as an independent board chair perhaps have some ability of being able to look at things in a different perspective and provide them the support that is required in making (difficult) decisions."

Key to the chair's actions, however, must be the understanding that crises, though unfortunate, are encountered by every board, and the chair's roles and responsibilities are equally as important in times of crisis as they are in calm times. "If we have taken the responsibility of being a board chair there will be good times, there will be bad times, there will be good news and there will also be sometimes some bad news that can happen. The most important thing is that you really have to, at that situation as it demands, give it your whole thing, because you know that it is the most important piece of salvaging the reputation of the institution and whatever it takes to engage with the employees or external stakeholders to work the way out, and you have to actually prioritize what is it that requires immediate attention."

Board member's roles in a crisis

The full board's efforts are equally as important as the Chair's, said Mehta, though it might feel somewhat out of place given that under normal circumstances, regular members may not be as active as their counterparts in leadership. "When you have your backs to the wall, everybody pools in," he said. "Everyone stands up and everyone plays a role." In his experience, a key component of that is having board

members that are willing to dive into the work that needs to be done and, “forget the theoretical stuff,” he said, referring to the typical niceties of board work.

In a crisis, members will also be called to perform oversight responsibilities that could be overseen by regulators and other governing entities. For Mehta, that was the case as his institution was weathering the PNB crisis, when the board was faced with holding executive directors accountable, and members were ultimately the ones to look at all of the facts and decide on management’s future. In moments like that, it is absolutely imperative, he said, that members undergo that responsibility with complete integrity. In those situations when you are dealing with people’s lives, reputations, and professional careers, it can have enormous implications for them. “The important element as a board member is you have to take your job very seriously and not be swayed by what could be the easy way out of just putting somebody on the block,” he said.

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